



**Testimony in Support of Senate Bill 925**  
**An Act Concerning the Cost of Prescription Drugs and Value-Based Insurance Design**  
**Submitted by Jill Zorn, Senior Policy Officer**  
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Universal Health Care Foundation of Connecticut believes we need to change the rules so that drugs are affordable for everyone who needs them. We applaud State Comptroller Kevin Lembo and the members of the Insurance and Real Estate Committee for taking an interest in this issue and are here today to testify in support of SB 925.

**The Problem**

Prescription drug costs are rising at an unsustainable rate. A big part of the problem is the high prices of new specialty medications.

- Overall, spending on specialty medications increased by 30.9% in 2014 and 21.5% in 2015.
- The Hepatitis C drug Solvadi retails for \$84,500. Generous estimates of R&D investment into this drug by Gilead Sciences are at \$870 million, with profits of more than \$36 billion.

But generic drug prices, which account for 88% of prescriptions dispensed nationally, have not been exempt from this trend, either.

- From 2010 to 2015, the price of 315 (22%) of generic prescription drugs paid for by Medicare increased more than 100%. Of these drugs, 15% increased by more than 500%.
- Prices of some generic drugs for common conditions, such as albuterol (first launched to treat asthma in 1969) and doxycycline (an antibiotic approved by the FDA in 1967), increased by 4,000% and 8,000%, respectively, between 2013-2014.

Here are several other examples of huge price boosts:

- The list price for two EpiPens was \$600 in 2016, up from just over \$100 in 2007.
- The price of insulin rose 200% between 2002 and 2013 without any change in the formulation of the drug.
- Naloxone (used to treat opioid overdoses) prices spiked by nearly 1,000 percent in July 2016.
- The average annual cost of multiple sclerosis (MS) medications is \$78,000 today, nearly 400% higher than the \$16,000 average in 2004.

Please see the attachment to this testimony for more data about outrageous prices and unconscionable price increases for commonly used and essential medicines.

Not only are people forced to pay a price that they have no control over, they are also paying many times over for the drug that they ultimately consume.

- Taxpayer dollars contribute to the basic science and other research that enables drug development.

- Patent exclusivity is awarded by the federal government to new drugs, allowing a legally protected monopoly with no oversight of pricing.
- State and federal tax dollars fund the purchase of medications by Medicaid and Medicare.
- Health insurance premium dollars pay for prescription drugs. The cost of health insurance is particularly sensitive to prescription drug price hikes.
- People pay again at the pharmacy counter with co-pays, deductibles and co-insurance.
- Ultimately, people may pay with their lives and their health if they end up walking away from the pharmacy counter because they can't afford their medication.

### **People Are Very Worried about Prescription Drug Affordability and They Want Action**

People with insurance coverage should not have to choose between life-sustaining medicines or paying the mortgage.

The public knows there is a problem. Consumers live in fear of high and rising prescription drug costs. In a recent Kaiser Family Foundation poll, 74% say a top priority is, "Making sure that high-cost drugs for chronic conditions are affordable to those who need them." And what do they see as the solution? 63% listed as a top priority, "Government action to lower prescription drug prices."

Addressing high and rapidly increasing prescription drug prices is a bipartisan issue. A poll of Maryland voters conducted in August 2016 showed support never dropped below 70% for three suggested legislative actions.

Support for Individual Provisions of Prescription Drug Affordability by Political Party

	Democrats	Republicans	Independents/ Third Parties
Prescription drug price transparency	90%	73%	82%
Price increase notification	91%	85%	90%
Attorney General legal action on price gouging	88%	75%	85%

Source: Maryland Voter Poll on Prescription Drug Affordability Legislation, September 8, 2016, conducted by OpinionWorks for Maryland Citizen's Health Initiative.

### **Why We Need Transparency and Price Gouging Legislation**

Drug corporations are permitted to charge whatever the market will bear. But they are manufacturing and selling a public good, a product that people rely on to live healthy and productive lives, or depend on to literally stay alive.

Because brand name drugs are granted exclusivity, competition often does not work to keep prices down. And negotiating power is limited if the drug must be available, especially if there are few or no therapeutic substitutes available. Even when the patent expires "pay to delay" deals, shrinking competition and many other factors are leading to price spikes in the generic market, too. In the end, setting prices at what the market will bear too often means "the sky's the limit."

The health insurance industry provides information to the Insurance Department for rate review. The hospital industry, while its charges to private insurance should be more transparent and regulated, at least must provide cost information to Medicare; and both Medicaid and Medicare keep a tight rein on hospital

reimbursement rates. Yet somehow drug corporations, which are a crucial and expensive part of the health care system, have remained almost totally exempt from regulatory oversight regarding their prices.

### **Building Blocks of Transparency and Price Gouging Legislation**

Transparency reporting elements could include:

- Research and development costs
- Manufacturing and production costs
- Sales and marketing expenses
- Secretive rebates, coupons, patient assistance programs and other practices that reduce but also obscure prices
- “Pay-for-delay” deals to slow down taking drugs off patent
- CEO salaries and administrative costs
- Stock buy-backs
- Taxes
- Profits
- Lobbying expenses

Some of this data would be drug-specific. Some would be more at the corporate level. SB 925 does not provide an extensive list of data to be required. However, it places an important responsibility on the drug corporation to provide a justification for the price they are setting.

Aside from which categories of data or specific data elements to collect, other issues to consider include:

1. How will price gouging be defined and where should efforts focus?
  - a. Most commonly used drugs
  - b. Most expensive drugs
  - c. Drugs with steep price increases

SB 925 proposes to look at both high list prices and large increases and has suggested thresholds for both brand-name drugs and generics. This seems like a useful approach. Some decision making is left to a proposed task force. Hopefully such a task force would be established quickly and members would work in good faith to make decisions that benefit the public.

2. What information reported to the state will also be made public?
  - a. The Foundation believes that data should be made as public as possible. Given the amount of tax dollars supporting prescription drug development and paying for these products, the public has the right to know how their money is being spent.
3. Which government entity will receive and analyze the information?
  - a. The Foundation supports the creation of the Office of Health Strategy, as proposed in Governor’s Bill SB 795 and believes this office would be the logical entity to collect and analyze the information, rather than the Insurance Department, as proposed in SB 925.
  - b. It is likely that the Attorney General’s office would also play a role, particularly in investigating problematic price increases and following through on stopping them.
4. Should Pharmacy Benefit Managers (PBMs), wholesalers and other middlemen be included in transparency legislation, as they also contribute to marking up prices?

We note that SB 925 includes a provision for PBMs to report on the price concessions they have negotiated, which seems important if we are to get a full understanding of how prices are determined.

The ultimate goal of this legislation should be to hold drug corporations accountable to the public and prevent predatory pricing.

#### **Value-Based Insurance Design**

The state employee health plan, through their Health Enhancement Plan, has shown the advantages of value-based insurance design in promoting better health and lowering costs. We support the provision in SB 925 that promotes the adoption of benefit designs that lower enrollee out-of-pocket costs in the private insurance market, enabling patients to better adhere to their medication regimens.

#### **Allow Consumers to Benefit from Negotiated Prices**

An important provision in SB 925 is to allow patients to have their out-of-pocket costs calculated based on the price their insurance company has negotiated rather than the list price. This would offer much-needed financial relief when they face high deductibles and co-insurance payments, and be another way to enable them to take their medications as prescribed.

#### **Conclusion**

On behalf of Universal Health Care Foundation I want to thank Comptroller Lembo and the members of this Committee for raising SB 925. The bill takes a comprehensive approach to addressing the problem of high and ever-increasing prescription drug prices, while also seeking to provide immediate relief to consumers through implementing out-of-pocket protections and promoting the use of value based insurance design. We hope 2017 is the year that Connecticut passes crucial and effective prescription drug legislation.

*Universal Health Care Foundation of Connecticut's mission is to serve as a catalyst that engages residents and communities in shaping a democratic health system that provides universal access to quality, affordable health care and promotes health in Connecticut. We believe that health care is a fundamental right and that our work is part of a broader movement for social and economic justice.*

## Attachment 1

### The Problem of High and Rapidly Growing Prescription Drug Prices

- **Pharmaceutical spending in the United States is growing at an unprecedented rate.**
  - Spending on prescription drugs in the United States rose by 13% in 2014<sup>1</sup> and 12% in 2015.<sup>2</sup>
  - These increases are higher than any in the previous decade. In comparison, hospital and physician expenditures grew by 4-5%.<sup>3</sup>
- **The United States spends more on prescription drugs per person than all other developed countries.**
  - Americans spend over \$1,100 per person per year on prescription drugs. The next highest country is Canada, which spends \$787 per capita.<sup>4</sup>
  - On average, Americans pay 50 to 100% more for drugs than do people in other countries.<sup>5</sup>
  - Specialty drugs are typically priced much higher in the United States than in other developed nations.
    - As an example, the average cost per month for Humira, a drug for inflammatory diseases such as rheumatoid arthritis, was \$881 in Switzerland vs. \$2,246 in the United States.<sup>6</sup>
- **Price increases, of both generic and brand-name drugs, are driving the growth in spending.**
  - Retail prices for brand-name drugs increased 130 times faster than inflation in 2015.<sup>7</sup>
  - Spending on specialty medicines, to treat conditions such as hepatitis, autoimmune diseases and cancer has nearly doubled in the past five years. Overall, spending on specialty medications increased by 30.9% in 2014<sup>1</sup> and 21.5% in 2015.<sup>2</sup>
  - Generic medications account for 88% of prescriptions dispensed nationally.<sup>8</sup> From 2010 to 2015, the price of 315 (22%) of generic prescription drugs paid for by Medicare increased more than 100%. Of these drugs, 15% increased by more than 500%.<sup>9</sup>
    - Prices of some generic drugs for common conditions, such as albuterol (first launched to treat asthma in 1969) and doxycycline (an antibiotic approved by the FDA in 1967), increased by 4,000% and 8,000%, respectively, between 2013-2014.<sup>10</sup>
  - Here are some other examples of outrageous price increases:
    - EpiPen: The list price for two EpiPens was \$600 in 2016, up from just over \$100 in 2007.<sup>11</sup>
    - Insulin: the price of insulin rose 200% between 2002 and 2013 without any change in the formulation of the drug.<sup>12</sup>
    - The price of Naloxone (used to treat opioid overdoses) spiked by nearly 1,000 percent in July 2016.<sup>12</sup>
    - The average annual cost for multiple sclerosis (MS) medications is \$78,000 today, nearly 400 percent higher than the \$16,000 average in 2004.<sup>13</sup>
- **While prices are rising, drug corporations are reporting record profits.**
  - Generic and major pharmaceutical companies combined achieved a net profit margin of 55% ranking higher than major banks (23%) and investment managers (29%).<sup>14</sup>
  - The pharmaceutical industry is currently one of the world's most profitable industries with profit margins for some companies reaching 42%.<sup>5</sup>
- **Major pharmaceutical corporations spend more on marketing than research.**
  - Drug companies spend an estimated 3 billion on R&D but up to 24 billion on Sales and Marketing.<sup>15</sup>
  - In 2015, only 11 out of 100 pharmaceutical corporations spent more on R&D than Marketing.<sup>16</sup>
- **The public subsidizes drug companies by paying for drugs multiple times: to fund the research, to pay insurance premiums and to purchase the drugs.**
  - From 1988-2005, 49% of all drugs and 65% of priority review drugs received public research funding.<sup>17</sup>
  - 84% of basic science research is supported by government and taxpayers.<sup>18</sup> Drug development by major pharmaceutical companies would not be possible without these breakthroughs.
  - Pharmaceutical companies generally price medication at what the market will bear rather than how much benefit the drug has.<sup>19</sup>

- The Hepatitis C drug Solvadi retails for \$84,500. Generous estimates of R&D investment into this drug by Gilead Sciences are at \$870 million, with profits of more than \$36 billion.<sup>4</sup>
- **Pharmaceutical prices are creating a crisis for Connecticut residents.**
  - 1 in 4 people in the United States report difficulty affording medications that they need. According to a Kaiser study, about 50% of the population reports taking prescription medications with a quarter of them reporting not filling a prescription due to cost.<sup>20</sup>
  - In 2013, Americans had to pay an estimated 41 billion in out of pocket costs for pharmaceutical drugs.<sup>21</sup> This number has been steadily increasing due to higher deductible plans with increased copays and coinsurance.
  - Consumers live in fear of high and rising prescription drug costs. In a recent Kaiser Family Foundation poll, 63% listed as a top priority, “Government action to lower prescription drug prices”.<sup>22</sup>
  - Connecticut is experiencing a budget crisis, and increases in pharmaceutical prices impact the state budget.<sup>23</sup>
    - While overall medical costs for the health plan covering state employees and retirees rose by 2.9 percent in 2015, pharmaceutical costs rose by 20 percent.<sup>24</sup>
    - CT Medicaid pays for approximately 10 million prescriptions annually.<sup>25</sup>

<sup>4</sup>Medicine Use And Spending Shifts: A Review Of The Use Of Medicines In The US In 2014. 1st ed. New Jersey: IMS Institute for Healthcare Informatics, 2015. Print.

<sup>20</sup>Medicine Use And Spending in the US – A Review of 2015 and Outlook to 2020. 1st ed. New Jersey: IMS Institute for Healthcare Informatics, 2016. Print.

<sup>21</sup>Martin, Anne B, Hartman, Micha, Washington, Benjamin, Catlin, Aaron and the National Health Expenditure Accounts Team. National Health Spending: Faster Growth in 2015 as Coverage Expands And Utilization Increases. Health Affairs. 2015. doi: 10.1377/hlthaff.2016.1330

<sup>22</sup>Organization of Economic Cooperation and Development. (2017). Health spending (indicator) doi: 10.1787/8643de7e-en (Accessed on 14 February 2017) Available from <https://data.oecd.org/health/health-spending.htm>

<sup>23</sup>Bronan, Hannah and Kapczynski, Amy and Monahan, Christine H. and Rizvi, Zain, A Prescription for Excessive Drug Pricing: Leveraging Government Patent Use for Health (August 1, 2016). 18 Yale J. L. & Tech. 275 (2016); Yale Law School, Public Law Research Paper No. 577; Yale Law & Economics Research Paper No. 560. Available at SSRN: <https://ssrn.com/abstract=2832948>

<sup>24</sup>Cox C, Kamal R, Jankiewicz A, et al. Recent trends in prescription drug costs. *JAMA* 2016;315(13):1326-26. doi: 10.1001/jama.2016.2646

<sup>25</sup>American Association of Retired Persons. (2016). *Rx Price Watch Report: Trends in Retail Prices of Brand Name Prescription Drugs Widely Used by Older Americans, 2006 to 2015*.

<sup>26</sup>Express Scripts. (2015). *The 2014 Drug Trend Report*. Accessed from [http://ah.express-scripts.com/~media/PDFs/Drug%20Trend%20Report/ExpressScripts\\_DrugTrendReport.tsh](http://ah.express-scripts.com/~media/PDFs/Drug%20Trend%20Report/ExpressScripts_DrugTrendReport.tsh)

<sup>27</sup>Generic Pharmaceutical Association. (2015). *Generic Drug Savings in the U.S.* Accessed from [http://www.gphaonline.org/media/ysywyg/PDF/GPhA\\_Savings\\_Report\\_2015.pdf](http://www.gphaonline.org/media/ysywyg/PDF/GPhA_Savings_Report_2015.pdf)

<sup>28</sup>United States Government Accountability Office. (2016). Report to Congressional Requesters. *Generic Drugs Under Medicare: Part D Generic Drug Prices Deducted Overall, but Some Had Extraordinary Price Increases*.

<sup>29</sup>Sanders B. Ranking Member Cummings and Chairman Sanders Investigate Staggering Price Increases for Generic Drugs. 2014

<sup>30</sup>Pollack, Andrew. "Mylan Raised Epipen'S Price Before The Expected Arrival Of A Generic". *Njtimes.com*. N.p., 2017. Web. 26 Feb. 2017.

<sup>31</sup>United States Senate Special Committee on Aging. (2016). *Staggering Price Spikes in Off-Patent Prescription Drugs: The Monopoly Business Model that Harms Patients, Taxpayers, and the U.S. Health Care System*. Accessed from <http://www.aging.senate.gov/imo/media/doc/Drug%20Pricing%20Report.pdf>

<sup>32</sup>Thomas, Katie. "Favor Over Drug Prices Puts Patient Advocacy Groups In Bind". *Njtimes.com*. N.p., 2017. Web. 26 Feb. 2017.

<sup>33</sup>Chen, L. "The Most Profitable Industries In 2016." *Forbes*. December 21, 2015. <http://www.forbes.com/sites/lyanchen/2015/12/21/the-most-profitable-industries-in-2016/#4bdc5e07a8b>

<sup>34</sup>Cegedim Strategic Data, 2012 U.S. Pharmaceutical Company Promotion Spending (2013).

<sup>35</sup>The Institute for Health & Socio-Economic Policy. *The R&D Smokescreen: The Prioritization of Marketing vs. Sales in the Pharmaceutical Industry*. October 20th, 2016. Accessed from [http://muses.3cdm.net/e743ab9a3e937f65646\\_a1m6b1b0a9.pdf](http://muses.3cdm.net/e743ab9a3e937f65646_a1m6b1b0a9.pdf)

<sup>36</sup>Samrat BN, Lichtenberg FR. What are the respective roles of the public and private sectors in pharmaceutical innovation? *Health Aff (Millwood)* 2011;30(2):332-9. doi: 10.1377/hlthaff.2009.0917 [published Online First: 2011/02/04] revenue-driven-pricing-strategy-behind-84-000-hepatitis-drug

<sup>37</sup>Light DW. (2006). Basic research funds to discover important new drugs: Who contributes how much? In M. A. Burke & A. de Francisco (Eds.), *Measuring financial flows for health research 2005: Defend the global numbers* (pp. 28–15). Geneva: Global Forum for Health Research.

<sup>38</sup>United States Senate Committee on Finance. (2015). *Wyden-Grassley-Solovick Investigation Finds Revenue-Driven Pricing Strategy Behind 484,000 Hepatitis Drug*. Accessed from <https://www.finance.senate.gov/record/members-news/wyden-grassley-solovick-investigation-finds-revenue-driven-pricing-strategy-behind-484-000-hepatitis-drug>

<sup>39</sup>"Kaiser Health Tracking Poll: June 2015". *Kff.org*. N.p., 2017. Web. 20 Feb. 2017.

<sup>40</sup>Mangan, Dan. "Symptoms Of Drug Prices: Painful Debt, Bankruptcy". *Healthcare*. N.p., 2017. Web. 20 Feb. 2017.

<sup>41</sup>"Public Banks Drug Costs And Sufficient Provider Networks Ahead Of Affordable Care Act Changes As Health Care Priorities For Next President And Congress To Address". *Kff.org*. N.p., 2017. Web. 26 Feb. 2017.

<sup>42</sup>Pham, K. M. (2017, February 09). Malloy budget hinges on big labor savings, new revenues. Retrieved February 15, 2017, from <http://ctmirror.org/2017/02/09/malloy-unveils-11.6-billion-two-year-budget/>

<sup>43</sup>Zorn, Jill. "The Burning Platform Of High Drug Prices". *Healthcare Hub*. N.p., 2017. Web. 26 Feb. 2017.

<sup>44</sup>"Connecticut Medicaid And Pharmacy". 1558 CT Healthcare Cabinet Meeting 2017. Presentation.